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IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

REPLY OF APPELLANT.

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Neither corporate appellees nor the Government dispute that the three substantial questions raised by this appeal are:

Whether it was error to hold, as the court below did,

1. that prosecution by USG of its compensation suits, pleading counts on the voided license agreements, is, as a matter of law, a misuse of patents;
2. that the issues of patent misuse, in the 1948-1951 period, raised in the petitions of corporate appellees, and denied by USG in its answers thereto, might be adjudicated without the taking of any evidence; and
3. that the court below had jurisdiction to enjoin prosecution by USG of compensation suits, pending in courts of competent jurisdiction.

Appellees only indirectly meet the USG contentions in respect of any of those questions. Therefore, because of the apparent differences between the parties in their conception of what is relevant to disposition of the questions raised on this appeal, it seems desirable briefly to restate the USG position in order that the respective contentions of the parties may be related specifically to that position.

I.

MISUSE.

A. Corporate appellees, but not the Government, contend that it was a misuse of patents for USG to institute compensation suits containing counts upon the voided license agreements (Natl. Br. 78-83; Cert. Br. 57). They contend that it was a misuse, although they do not state in what way such pleading amounts to an unlawful extension of the patent monopoly. Since they approve, however, this admittedly novel ruling of the court below, we may presume that they are satisfied simply to adopt the rationale of that court.

The theory of the court below seems to have been that it was a continuing misuse of patents by USG to have pleaded counts on the license agreements in the face of the language of Article IV of the 1951 final decree, which declared the licenses "illegal, null and void" (R. 1157, Conc. 13).

That holding can be based only on an unrealistic appraisal of the situation that USG faced when it brought its compensation suits. The record here provides a solid basis for entertainment of belief by USG in 1953 that Article IV of the 1951 final decree might merely have cancelled the license agreements as of its date of entry and, therefore, did not bar suits for royalties due under those agreements in the pre-1951 period.

Following its grant from the bench, in June 1948, of summary judgment in favor of the Government (R. 137-141), the court below requested that the parties submit drafts of proposed decrees. In November 1948, the Government submitted such a draft (R. 157-66).* Nowhere in the Government draft was it suggested that the license agreements were to be declared unenforceable, *in toto*. Both paragraphs "1" and "2" of Article VII thereof, clearly contemplated only a "cancellation" and bar of future performance under the license agreements. Indeed, the agreements were to have continuing vitality for as long as sixty days after entry of the final judgment (R. 163).

Thereafter, USG submitted a draft of proposed decree (R. 188-94). That draft, like the proposed decree of the Government, only provided for cancellation and termination of the license agreements upon entry of the final decree (R. 192).

Those draft decrees of the United States and USG were the only drafts before the district court when it sat on June 13, 1949, to hear argument upon the form of final decree.

In the course of that argument, several significant things happened. On June 14, 1949, both Mr. Dallstream, speaking for Certain-teed, among others, and Mr. Knuff, counsel for the Government, submitted amendments to the proposed decrees. Those amendments declared the patent license agreements "illegal, null and void" (R. 406-407, 992-993).

Mr. Finck, counsel for National, also urged in argument, June 14, 1949, that the license agreements be declared

* The proposed decree of the Government was filed November 28, 1948. However, on the 1950 appeal of the Government, the November 28, 1948 decree could not be located in the files of the court below and a copy was supplied by the Government, which copy was given the date of its filing, *i.e.*, April 19, 1950.

"null and void" (R. 348-360) and on June 16, 1949, submitted on behalf of National a proposed decree, declaring the license agreements "null and void" (R. 432).

Thus, the three sources from which the court below could possibly have derived the "illegal, null and void" language of the final decree are provided by the decrees and amendments proposed by the Government, National and Certain-teed.

It only remains to be determined, therefore, whether any of those parties in proposing the "null and void" language represented to the court below what the effect of such language should be upon suits by USG for royalties under the licenses. The fact is that each of those parties, either informed the court below (1) that inclusion of the "illegal, null and void" language was to be deemed equivalent to simple "cancellation", or (2) that the suggestion of declaring the agreements "illegal, null and void" was not in any sense based upon a desire to avoid license fees during the *pendente lite* period.

The language of Mr. Dallstream on this point runs as follows:

> "In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period * * *" (R. 992-993).

The position of the Government with respect to the import of the "illegal, null and void" language was set forth by Mr. Knuff, when he proposed amendment of the Government's draft decree. In that connection, he said:

> "On the other hand, when you are declaring them null and void, which I suggest under III, null and void could probably be considered as a synonym for cancellation * * *

Judge Jackson: "That would then be the date of the decree, would it, the date of filing?
Mr. Knuff: That is right." (R. 406-407.)

The Government never repudiated that statement of June 14, 1949.*

In his argument on that date, Mr. Finck, speaking for National, acknowledged that Article VII of the proposed Government decree merely cancelled the license agreements, restraining defendants from further enforcement of them. He expressly acknowledged that the proposed decrees of both the Government and USG, unlike the decree entered in *United States* v. *Line Material Co.*, did not contain any injunction against suits for past infringement or breach of royalty agreements (R. 355).

When National, two days later, submitted its proposed decree, it merely modified Article VII of the proposed Government decree to include a declaration therein that the license agreements be deemed "null and void" (R. 432). No indication was given by National when making that proposal that the words "null and void" were to serve any purpose other than justification for the cancellation of and restraint of future performance by defendants under the license agreements. Indeed, the proposed decree of National continued to carry the provision of the earlier Government draft, merely cancelling the licenses. By the terms of its proposal National strongly suggested that it was only future performance under the license agreements that was meant to be barred (R. 432).**

* The Government had made it quite clear in argument on June 13, 1949, that it only sought cancellation of the licenses. Thus, Mr. Knuff had informed the court below: "I do not think the court is going to have too much trouble in disposing of this section of the decree, because, if I understand USG's position correctly, they do not object to the cancellation of the existing licenses." (R. 278)

** As corporate appellees concede, by July 25, 1949, USG had begun to suspect that the purpose of corporate appellees in urging

It is submitted that all proponents in the court below of the "illegal, null and void" language that finally appears in the 1951 final judgment, either expressly or by strong implication informed both the district court and USG that inclusion of such language was not intended as a bar to collection by USG of compensation from persons who had used its patents in the *pendente lite* period.*

B. It is clear from Conclusions 7 and 13 of the court below (R. 1156-1157)** that if USG, in 1953, had not

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the court below to include the "illegal, null and void" language of Article IV was "to obtain some advantage with respect to the use of the patents." (Natl. Br. 50; Cert. Br. 48) Indeed, USG went so far as to call its suspicions in this respect to the attention of the district court (R. 437). However, corporate appellees never affirmed or denied the correctness of the USG suspicions. They merely continued to stand upon the reasons that they had previously given for including Article IV (USG Br. 67-68), which, of course, did not include avoidance of payment for prior use of USG patents. They can now hardly make a virtue of their silence and misrepresentation.

* Corporate appellees are, of course, wholly unwarranted in charging that prosecution of the USG compensation suits in Iowa "flouted boldly" the 1951 final decree (Natl. Br. 28; see also Cert. Br. 57). Not only was there real uncertainty as to the meaning of the "illegal, null and void" language of Article IV, but the court below has held that Counts III, IV and V were not expressly or impliedly covered by the 1951 final decree. Moreover, the corporate appellees concede (Natl. Br. 44) that "the lack of a specific injunction in the decree against enforcement of the license agreements" bars a conclusion that USG, in bringing its compensation suits, acted contumaciously.

** "7. • • •

"Article IV of the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such.

"• • •

"13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is

pleaded its counts on the old license agreement: (1) the 1951 final decree would not have barred compensation suits based upon the other counts, (2) USG would not have been deemed to have misused its patents continuously from 1948 to 1953, and (3) the court would not have modified the 1951 final decree.

But we know what would have happened had USG, in 1953, in its compensation suits, merely pleaded infringement of its patents. The old license agreements would have been pleaded in defense.* The issue of the validity of those agreements would have been raised for decision. It would have been a question whether USG, in the face of those arguments, was entitled to relief for infringement.

However, one serious difference would have arisen should the matter have proceeded in that way. Suppose the 1953 compensation court finally had decided that the old license agreements were only cancelled by the 1951 final decree and that the licenses therefore barred a suit that only claimed for pre-cancellation infringement. USG would then have been forever out of court. It could not turn and sue on the license agreements, for the Iowa five-year statute of limitations on contract claims had, by March 1953, started to bar recovery for the 1948 period. Had compensation suits been started May 16, 1951, there was even then not time enough to try and sue in two steps. Moreover, under long established doctrines of *res judicata*, such a second suit by USG would doubtless have been barred as a matter of law. It would have been barred on the ground that USG had the opportunity and should have asserted its contract theory when making its claim

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clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

* This defense was actually pleaded by National to the USG infringement count in the Iowa compensation suit (R. 723-724).

for compensation for use of its patents. Cf. *Baltimore S. S. Co.* v. *Phillips*, 274 U. S. 316.

It is to avoid just such hazards as this to good faith prosecution of a claim that the Federal Rules (Rule 8) permit a party to plead alternative and inconsistent counts and declare that the insufficiency of one or more of such counts does not render the entire pleading insufficient.

It is, presumably, recognition of this fact that has caused the Government never to contend that the bringing of suits on the old license agreements is, *per se*, a misuse of patents. The government did not so allege in its petition (R. 739). It does not now so allege. Indeed, if it now believed such to be the case, it could not remain indifferent to whether USG recovers on its remaining counts. This is necessarily so, because the Government, in its brief on this appeal (U. S. Br. 13), reaffirms its support of the rule in the *Morton Salt* case. If the Government believed that USG had misused its patents in 1953 by bringing its compensation suits, it would be here invoking application of the *Morton Salt* rule.

C. Corporate appellees suggest (Natl. Br. 79-82; Cert. Br. 76-80) that USG can find no comfort in the provisions of Section 271(d), Title 35, the relevant language of which reads:

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse by reason of his having * * * sought to enforce his patent rights against infringement * * *"

They contend, as did the court below (R. 1336-37), that prosecution by USG of its counts on the old license agreements was a misuse of patents, and, by reason thereof, USG was not "otherwise entitled to relief for infringement."

But, as we have already noted, when USG pressed its

counts for infringement in its compensation suits the license agreements were pleaded as a bar thereto. If the need for judicial determination of whether a plaintiff is "otherwise entitled to relief for infringement" can be injected into an action by defendants, pleading putatively voided license agreements as a bar to infringement, it certainly cannot be a misuse of patents for the plaintiff to have raised that issue by pleading the same agreements, as one of several alternative grounds, in a suit claiming compensation for use of patents.

II.

RIGHT TO BE HEARD.

Corporate appellees contend (Natl. Br. 63-75; Cert. Br. 51-67) that it was not error to hold that issues of patent misuse in the 1948-1951 period, raised in their petitions (R. 611-12; 663-64) and denied by USG in its answers thereto (R. 788-89; 797-98), might be adjudicated without the taking of any evidence.

The petitions of corporate appellees assert a wide variety of alleged patent misuse by USG in the 1948-1951 period. They charge, among other things, that during that period USG did not abandon any of the illegal patent practices established at the trial of the Government suit; that USG continued its licensing, as well as pricing and distribution policies, in accordance with the terms of the unlawful licenses; that USG collected royalties thereunder, not only on patented but unpatented board as well; that it sold and distributed its product under the same terms and conditions as prescribed in the unlawful licenses; that USG refrained from selling gypsum products to jobbers; that it refused to grant licenses under its misused patents to all applicants on lawful terms; and that it continued to assert, until at least May 29, 1950, that its unlawful licenses were legal in every respect (R. 611-12).

The answers of USG to the various petitions expressly deny each of those allegations that it misused its patents in the 1948-51 period and, they expressly deny, among other things,

> "* * * that during the period from February 1, 1948, to May 15, 1951, it continued any illegal patent practice as alleged in the Government's complaint or that during such time it conducted its patent licensing, sales, price or distribution policies in accordance with the terms of any unlawful licenses." (R. 789.)

Those pleadings by the corporate appellees and by USG, plus the record in the old Government antitrust suit, constitute the complete record upon which the court below entered its judgment modifying the 1951 final decree. The last word that the district court had, therefore, on the economic and technological state of the gypsum industry related to events that had occurred no later than 1941.

The corporate appellees now apparently sense that those deficiencies in the record undercut the basis of the judgment below. They ask this Court, therefore, to resort to a legal fiction to provide a continuing patent misuse by USG. Thus, they call the attention of the Court to earlier rulings by it to the effect that an antitrust violation once proved is presumed to continue until clear proof of purge is shown (Natl. Br. 71).*

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* Corporate appellees contend (Natl. Br. 65-67; Cert. Br. 51, 56) that there are on the record five incontrovertible facts, found by this Court in 1950, showing sweeping misuse by USG of its patents at the time of the filing, in 1940, of the complaint in the old Government antitrust suit. Reference thereafter by National (Natl. Br. 71) to cases extending the presumption of such violations, until clear proof of purge is shown, is made only for the purpose of extending those so-called incontrovertible violations through the 1948-1951 period.

Appellant, of course, rejects the contention of corporate appellees that this Court made any new findings of fact in 1950. This Court, in its 1950 decision (340 U. S. 76), certainly did not

Even assuming the accuracy and application to this case of such a legal theory, and even assuming its necessary corollary, that the burden of going forward and rebutting the presumption, by showing purge, rests upon USG, the fact remains that USG has not been accorded an opportunity to offer any evidence against the presumption.

USG asks that this Court require at least *prima facie* proof of those patent misuses alleged by corporate appellees to have been practiced by USG from 1948-1951. USG asks that this Court direct that it then be given a chance to prove its denials of those alleged misuses. USG wants an opportunity such as was given defendants in *United States* v. *Oregon State Medical Society,* 343 U. S. 326, 334, to which National has made approving allusion (Natl. Br. 71), to show that seven years of abandonment of a proven antitrust violation is a sufficiently long period of grace in which to effect a purge of such violation.

It was in connection with this claim for an opportunity to be heard that USG, in a brief submitted to the court below (R. 812-14), called the attention of that court to certain facts, already of record before it, which USG contended not only prevented any summary ruling of unpurged misuse but transferred to corporate appellees the burden of proving, *prima facie,* the patent misuses they alleged against USG. Thus, USG, for illustrative purposes only, directed the consideration of the district court to these facts of record: that price fixing had been abandoned in the industry in 1941 (1947 R. 4143); that the 1948 opinion of this Court (333 U. S. 364) established, *prima facie,* the

find the so-called incontrovertible facts. This Court made clear in 1950, when granting the relief then sought by the Government, that it accepted itself bound, as to the facts, within "the narrow limits of the proven violation" found below (340 U. S. 76, 90). Certain it is, that the antitrust violations proven in the district court in the old Government antitrust suit did not include any of the five so-called incontrovertible facts that are now enumerated by corporate appellees. (See 340 U. S. 76, 88; 1949 Proof by Proffer, at R. 36-54; 1949 decree, at R. 471-77.)

illegality of pre-1941 price-fixing practices in the gypsum board industry; that in June 1948, the court below held the pricing provisions of the license agreements illegal *per se;* that USG offered legally unobjectionable licenses in 1949 (R. 396-8, 447, 481, 562, 567-70); that the district court had issued an injunction against industry price fixing practices in November 1949 (R. 475); and that in May 1950, this Court had issued a temporary injunction against all defendants, enjoining any price fixing by them (339 U. S. 960). USG urged below that the presumption to be applied was one of obedience to those many pronouncements of the courts, and that this was sufficient as a matter of law to rebut the alleged presumption of continuance of the conspiracy down to the date of the 1951 final decree.*

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* Corporate appellees seriously misapprehend the character and purpose of this USG reference to facts of record. That reference was not an "offer of proof" as is suggested by appellees in their statement of Question 3 in the "Questions Presented" (Natl. Br. 4). It was merely a reference to facts already established in the prior Government antitrust suit. USG submitted that those facts placed upon the corporate appellees the burden of going forward to prove the patent misuses in the 1948-1951 period that were alleged against USG in the petitions of the corporate appellees. Such reference to facts of record is not a proffer of proof.

Indeed, it is strange now to hear National contend that USG made a proffer of proof below. In their "Motion to Affirm" filed in this Court, they urged that USG had made no proffer of facts and, indeed, that USG had waived its right so to do (Natl. Mo. to Aff. 26; see, also, Cert. Mo. to Aff. 26 and Cert. Br. 57).

Throughout this proceeding, corporate appellees have overlooked the fact that the procedure below was intended to present, in the first instance, legal points, as on a motion for summary judgment, as to whether or not the district court had and should take jurisdiction, and whether or not questions raised by the petitions might be disposed of as a matter of law (R. 676-78, 691-92, 812-14, 1252-53). In a brief of National filed below (R. 775-6), it was urged that if the district court should not hold for National as a matter of law, it "should then proceed to hear evidence on the question of whether USG took effective steps to accomplish a purge of its misused patents prior to May 15, 1951."

To date, there has not been a scintilla of evidence put on the record in support of allegations by corporate appellees that USG

III.

JURISDICTION OF COURT BELOW.

In its main brief, USG attacks the jurisdiction of the court below on two grounds. USG contends that the district court did not have power (1) to extend the restraints of the 1951 final decree to achieve purposes beyond those of that decree, and (2) to inject itself, and thereafter use its injunctive powers, to restrain decision of cases then pending in other federal courts of competent jurisdiction.

The first of those contentions is exhaustively discussed in our main brief, and more need not be said upon it here (Br. pp. 26-36, 62-74).

The second point: Whether the district court had power to preempt decision of issues already pending in other district courts of competent jurisdiction is one upon which it is appropriate for USG to speak further.*

This question raises problems in judicial administration closely akin to those involved when courts treat the problem of primary jurisdiction in administrative agencies.

The problem of primary jurisdiction in administrative agencies was aptly treated in a decision by Mr. Justice White, in *Texas & Pacific R. Co.* v. *Abilene Cotton Oil Co.*, 204 U. S. 426. That case held that where Congress had established an expert agency for the determination of questions of fact and mixed questions of fact and law, such agency was to have a primary jurisdiction, even where statutes granted district courts power to treat such

misused its patents in the 1948-1951 period. There has not been an opportunity for USG to introduce countervailing evidence or to proffer countervailing proof, even to a presumed misuse. Neither has there been any intent or act by USG to waive its right to introduce such evidence.

* This point also relates to one of those two matters on this appeal upon which the Government has seen fit to comment (U. S. Br. 9-12).

matters concurrently. Only where pure questions of law are raised may a district court presume concurrently to exercise its powers with an administrative agency.

The petition of the Government and Claim I of the National petition raise only pure questions of law. Thus, in its petition the Government contends that Article IV of the 1951 final decree barred recovery by USG on any of the license agreements declared by Article IV to be illegal, null and void (R. 739-41). Claim I of the National petition goes further, alleging that the 1951 final decree bars recovery by USG on any theory of compensation for the use of its patents *pendente lite* (R. 610). However, Claim II of the National petition raises issues for decision of a different character (R. 611-612). By alleging multiple acts of patent misuse by USG in the 1948-1951 period, it raises a great variety of factual questions and questions of mixed fact and law.* Recognition that complicated questions of fact remain for decision if the judgment below is reversed requires, we submit, that choice of the forum for decision should go, just as it did in *Abilene*, to that forum which can more effectively handle resolution of the problems.

Such an analysis, we submit, leaves no doubt but that the district courts in which the compensation suits were originally brought, are the more appropriate fora. They are more appropriate for the following reasons:

1. Congress, in enacting Sections 28 and 29, Title 15, intended that economic issues of large public importance, raised in civil antitrust suits brought by the Government, should obtain the most prompt and careful consideration. This is evidenced by the fact that in all such cases Con-

* That issues of fact would be raised by the USG denial of the allegations of Claim II of the National petition has been acknowledged before the court below by counsel for National (R. 677, 775-76).

gress abandoned an intermediate step of appeal through the courts of appeals and imposed upon this Court the duty of reviewing directly judgments of district courts in such cases. The Congress went further. It declared that if the Attorney General certified that a "case is of general public importance", it should be tried by a court of three judges, one of whom must be a circuit judge.

It can hardly be contended that resolution of the ultimate question in this patent compensation litigation is a matter of large public moment. If this case is remanded to the court below for adjudication of the allegations contained in Claim II of the National petition, the United States will at most be a nominal party in the long proceeding that would follow. The United States has already indicated that resolution of the factual issues in this case, whether or not they result in an award of compensation to USG, is a matter upon which the Government is neutral (R. 740, 816, 878). To require that such factual issues as will arise in decision of this case on remand be resolved in a special court created for the decision only of matters of national public concern disregards the Congressional purpose in creating such courts.

2. Trial in the compensation court provides a more efficient fact finding medium than is provided by a three-judge court. Experience shows that trial by three judges is a laborious, time-consuming process, requiring multiple rulings by each judge on every question of evidence and admissibility. Unless the ultimate judgment of the court is one which involves an important public question, this process is wasteful of our limited judicial resources. Moreover, as this case indicates, the retention of jurisdiction in a three-judge court does not guarantee any greater foreknowledge, familiarity with the prior litigation, in that court than would be provided in the compensation court. As has been noted (USG Br. 17, fn.; U. S. Br. 4 fn. 2),

none of the judges on the court that entered the 1951 final decree sat on the court that entered the 1954 modifying decree.

3. Whether the USG compensation claims are litigated on remand in the court below or in the compensation court, ultimate recourse on appeal is to this Court. In either case, important questions of federal law can find their ultimate answers in a decision here. However, permitting trial in the compensation court provides a screening of both the factual and legal determinations of the trial court by the intermediate appellate review provided by our courts of appeal. Thus, at least four judges would pass upon judgments originating in the compensation court, while at most, as here, only three judges would pass upon the case. Moreover, had the Government, in 1940, not invoked the provisions of Section 28, Title 15, this case, on remand, would be returned for decision to but a single judge, appeal from judgment by his court being, nonetheless, direct to this Court.

IV.

MISCELLANEOUS MATTERS.

There are certain assertions made in the main briefs of National and Certain-teed which require brief refutation, which refutation cannot be worked into the frame of our prior argument that misuse, as a matter of law, was not established and that USG was deprived of its right to litigate the charge of misuse and purge. Refutation of such assertions follows:

A. Corporate appellees assert (Natl. Br. 10, 74; Cert. Br. 59) that USG never made a commercial tender of a new and innocent license agreement to its licensees prior to May 15, 1951.

The fact is that before the court below on June 14, 1949,

counsel for USG referred to forms of licenses theretofore presented to the licensees, and said:

> "In other words, the defendant United States Gypsum Company is offering to license under any one of the unexpired patents or any two or more that the individual licensee shall desire.
>
> • • • • •
>
> "Under those agreements and under that proposal, as I say, each licensee is at liberty to take a license under one or more, just as it shall elect." (R. 396-97)

Those proffered licenses were later approved as to form by the court below and thereafter were approved in substantially that same form by this Court (USG Br. 54-55). Since those licenses were proffered independent of judicial action (R. 396-97, 446), it cannot be contended, as corporate appellees attempt, that stay of the 1949 decree pending the USG appeal to this Court, in any way amounted to stay of the proffer.

Moreover, final determination of when and how USG may have made commercial proffers of legally acceptable licenses is like all the other questions of misuse and purge, a matter as to which USG deserves an opportunity to show additional pertinent facts not of record in the old Government antitrust suit.

B. Conclusions 7 and 13 of the court below (R. 1156-57) clearly show that had USG not pleaded its Counts I and II on the old license agreements: (1) the 1951 final decree would not have barred compensation suits based upon the other counts; (2) USG would not have been deemed to have misused its patents continuously from 1948 to 1953; and (3) the court below would not have modified the 1951 final decree. Nonetheless, appellees contend that the decision below is supported by multiple other bases than the conclusion that it was a misuse of patents for USG to have pleaded counts on the old license agreements.

In alleged support of their contention, appellees note that the court below barred prosecution of Count III (*quantum meruit*) of the USG compensation suits because it was "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements;" and that prosecution of the infringement counts was barred "both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (Natl. Br. 20-21; Cert. Br. 22-23; U. S. Br. 4-5).

We submit that the intent of that quoted language of the court below is only to buttress these two conclusions of that court: (1) that it was a misuse of patents for USG to sue on counts pleading the old license agreements; and (2) that because of such misuse, it was unnecessary, as a matter of law, that USG be given an opportunity to present evidence of its purge of alleged patent misuse in the 1948-1951 period.

Thus, when in Conclusion 14 (R. 1157-58) the court below held that Count III should be barred as being a "left-handed, indirect method for recovering the royalties provided in the illegal license agreements," it must have been acting on the belief that the misuse of patents occasioned by the pleading of Counts I and II in the compensation suits required that result. This inference is logically necessary, because in Conclusion 7, the court held that "the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*" (R. 1156). Clearly, if the 1951 final decree did not bar suit on Count III, such a suit could only be enjoined because of a subsequent illegal act by USG that could justify new and further exercise of equity restraints. *Hughes* v. *United States*, 342 U. S. 353. The only post-1951 act by USG found illegal by the court below (R. 1157) or alleged by corporate appellees to be illegal (R. 699) was its prosecution in 1953 of its compensation suit.

When the court below acted to bar the infringement counts of USG, it said that it was doing so "because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (R. 1158, Conc. 16). When the court refers to the "legal" situation, it can only mean, in the light of Conclusion 13 (R. 1157), the legal situation posed by its decision that the USG suits on the old license agreements were acts of patent misuse, requiring that recovery on an infringement theory be barred. As noted above, that was the only illegal action by USG that the court below found. Also, that misuse conclusion could have been the only "practical" matter that the court below had in mind, for, as we already know, the record before it was devoid of any economic or technological data relating to the gypsum industry in the period after 1941. Finally, since the court below seriously misconstrued the "teaching" of *Hartford-Empire* (See USG Br. 38-40 and Point D, *infra*) its judgment may not be sustained, by reference to its misplaced reliance upon that case.

C. National and Certain-teed in their main briefs attempt to justify bar, by the court below, of the *quantum meruit* counts of the USG compensation suits, by asserting that the *quantum meruit* counts in those suits are

> "a pure invention of counsel. A *quantum meruit* claim does not lie for use of a patent." (Natl. Br. 51-52; Cert. 73.)

National further states that its counsel have not been able to find any cases holding that there is a quasi-contractual action for patent infringement (Natl. Br. 52, fn.). Despite their research, the law is clear that while only a count for infringement will lie where there has been an unauthorized use of the patent invention, a *quantum meruit* count will lie where the use has been authorized by the patentee. *E. W. Bliss Company* v. *United States*, 253 U. S. 187, 190; *United States* v. *Palmer*, 128 U. S. 262; *Matarese* v. *Moore-*

McCormack Lines, 158 F. 2d 631 (2d Cir. 1946); *Henry* v. *A. B. Dick Company*, 224 U. S. 1; 69 C. J. S. 890; A. Corbin, "Waiver of Tort and Suit in Assumpsit", 19 Yale L. J. 221 (1910). Every case cited by appellees involved an unauthorized use of patents.

In the *Bliss* case, this Court stated that but for the patentee's lack of consent to the use of the patented inventions, "a contract for royalty on the basis of *quantum meruit* should be implied" (253 U. S. 187 at 190). And in the *Palmer* case, the Court said:

> "This assumption of the appellant is erroneous. No tort was committed or claimed to have been committed. The government used the claimant's improvements with his consent; and, certainly, with the expectation on his part of receiving a reasonable compensation for the license. This is not a claim for an infringement, but a claim of compensation for an authorized use,—two things totally distinct in the law, as distinct as trespass on lands is from use and occupation under a lease." (128 U. S. 262 at 269.)

It follows that the *quantum meruit* counts pleaded in the USG compensation suits will lie to recover compensation for such use of USG patents by appellees as was authorized.

Counsel for National are likewise mistaken when they seek to apply to *quantum meruit* counts (Counts III and IV) the rule that a transaction wholly illegal will not support recovery on *quantum meruit* (Natl. Br. 52, fn.). This rule accurately stated is only that if a *quantum meruit* count declares on an implied agreement which, had it been in writing, would have been illegal, then no *quantum meruit* recovery may be had. Moreover, any identity between the agreements alleged in Count III of the USG compensation suits and the old license agreements is completely negated by those allegations of Count III which assert a rescission of the old agreements and a new implied arrangement for

the authorized use of the patents, free of all restraints contained in the old written agreements.

D. National accuses USG of misinterpreting the *Hartford-Empire* case by intermixing its alleged prohibition against the collection of compensation for past infringement with a so-called special problem related to the disposition of the earmarked moneys paid by Hartford's licensees to a receiver of Hartford (Natl. Br. 56). But the moneys paid to the receiver were for *pendente lite* use of Hartford's patents. To call it a special problem gets nowhere. If the court had so desired, it could easily have given the licensees a "free ride" by ordering the receiver to return the moneys which each licensee had paid into the fund. It did not choose so to confiscate the patentees' property to the special benefit of its co-conspirators, but rather approved Hartford's receipt of compensation for use of its patents *pendente lite*. Furthermore, the *Hartford-Empire* final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, expressly excepted from that injunctive provision any such attempted recovery "against any other corporate defendant" (Par. 16(c) of *Hartford-Empire* final decree, October 31, 1945).

Corporate appellees' construction of *Hartford-Empire* turns on a statement by Mr. Justice Roberts on the first appeal in *Hartford-Empire* (Natl. Br. 55-56). That statement reads:

> "* * * if at the time of entry of the decree there are any alleged infringers who are willing to take such licenses they should be released, and the patent owner deprived of all damages and profits which it might have claimed for past infringement". (323 U. S. 386, at 419.)

However, the entire decision in *Hartford-Empire* cannot be pinned on that one sentence. To do so ignores the sub-

sequent history of the case in this Court and ignores also what this Court said elsewhere in its first opinion, from which the above quotation comes.

The true meaning of *Hartford-Empire*, as urged by USG, is that absent a post-decree antitrust violation, a patent licensor, although found to have previously violated the antitrust laws, is not, *per se*, barred from recovering compensation for use of its patents in the *pendente lite* period. This is borne out by the record in the *Hartford-Empire* case.

First, it is undeniable that Hartford received more than $7,000,000 from its licensees for use of its patents, machines and services prior to entry of the final decree. Second, the first opinion in *Hartford-Empire* of this Court, also stated:

> "The royalties paid to the receiver by Hartford's lessees may, unless the district court finds that Hartford has, since the entry of the receivership decree, violated the antitrust laws, or acted contrary to the terms of the final decree as modified by this opinion, be paid over to Hartford." (323 U. S. 386, at 411.)

Thirdly, in the second *Hartford-Empire* opinion of this Court, considering a petition by the Government for clarification or reconsideration of the first opinion, the Court further said:

> "Unless Hartford, since the entry of the decree by the District Court, has been guilty of some added violation of the antitrust laws, licensees must elect (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court may fix, or (b) repudiate the leases and litigate their rights as against Hartford to retain any portion of the rents and royalties paid." (324 U. S. 570, at 572.)

So far as pertinent here then, corporate appellees are in the position of those licensees in *Hartford-Empire*, who

elected to remain licensees on reasonable terms fixed by the court for the future, and, as to them, it is clear that the net result of *Hartford-Empire* is that the patent licensor was held entitled to receive compensation for use of its patents prior to the final decree, in the *pendente lite* period.

If Hartford was permitted to receive over $7,000,000 under its outstanding licenses which had been invalidated by the court, the *Hartford-Empire* case certainly forbids enjoining USG, on the record in this case, from seeking reasonable compensation for the actual use of its patents by co-conspirators during a comparable *pendente lite* period.

E. The claim by National that there was patent misuse from March 1948 to 1951 by reason of the receipt by USG of the royalties voluntarily paid to it by National until March 1948, is, while illogical on its face, also wholly untenable (Natl. Br. 57-58, fn. 29; 70). Patented board was the only commercially acceptable board (R. 37, 52), and, at the June 14, 1949 hearing, the attorney for National stated that National did not make other than patented board (R. 356). Whatever royalties National paid, then, under the old license agreement, were for actual use of USG patents. Equally unsupportable is the suggestion that the royalties were paid for price control by USG (Cert. Br. 71). From 1941 to 1948, when payments were stopped, there was no price control under the licenses (R. 1150, FF 22A). Moreover, National and Certain-teed accepted licenses under the 1951 final decree on the patents in suit at the same royalty rate established by the old license agreements. They bought in 1951, for the same money, that which they had always bought for that money, the use of USG patents.

V.

POSITION OF GOVERNMENT.

In its short brief, the Government recognizes that the USG appeal primarily attacks application by the district court of the so-called patent misuse doctrine in holding (1) that prosecution by USG of its compensation suits, pleading counts on the voided license agreements, is, *per se*, a misuse of patents, and (2) that the alleged patent misuses by USG in the 1948-1951 period, could be determined, as a matter of law, without the taking of evidence (U. S. Br. 8).

Although recognizing that these are the principal thrusts of the USG appeal, the Government nonetheless has seen fit to ask this Court to discuss "in the context of the general factual circumstances which the district court deemed significant or determinative" standards that would be appropriate "to make the patent misuse doctrine an effective deterrent against violation of the antitrust laws" (U. S. Br. 8, 17).

We submit, that such a request by the Government is patently premature, obviously improper. If, as USG contends, and as the Government does not deny, it was error for the district court to hold that the pleading of Counts I and II in its compensation suits was, *per se*, a misuse of patents, and further, that it was error to hold, as a matter of law, and without the taking of evidence, that USG had misused its patents, as alleged by corporate appellees, in the 1948-1951 period, it follows that the only appropriate action for this Court is to reverse, ordering trial of the alleged issues of misuse. Only at such a trial, in an appropriate court below, will that cluster of facts be developed against which in this controversy it is appropriate to discuss "standards to make the patent misuse doctrine an effective deterrent against violation of the antitrust laws."

This Court has always scrupulously recognized that it is for courts below to make initial determination of the facts and of the law appropriate to those facts. Here the facts relating to misuse and purge in the 1948-1951 period have yet to be found, and without such facts, standards may not be appropriately discussed. It is not for this Court to give advisory opinions, even on the invitation of the Solicitor General. This is certainly true when the opinion invited relates to a most difficult question of economic regulation.

CONCLUSION.

For the foregoing reasons, the judgment of the district court should be reversed, with directions to enter a judgment granting appropriate relief to appellant.

Respectfully submitted,

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